

TOWN ADMINISTRATOR
FISCAL YEAR 2014 BUDGET MESSAGE

January 2, 2013

To the Honorable Board of Selectmen and the Residents of Natick, it is my pleasure to submit the Town Administrator's Fiscal Year 2014 Preliminary Budget, which represents the culmination of weeks of effort across all levels of the general government and school administrations.

My budget messages in the past several years have followed the same general format, outlining the budget process, summarizing the Town's reserve position, detailing projected revenues and proposed expenditures, and outlining the resulting budget shortfall and the opportunities to address that shortfall.

This year's message and accompanying information will cover many of these areas but will take a different approach. This budget message will be used as an opportunity to frankly discuss our overall fiscal condition and the financial challenges we face in our future.

As has been indicated in prior budget messages and budget updates to Town Meeting, Natick has weathered the recession very well. In fact, it could be said that our fiscal condition is more favorable now than when the recession began. We have significantly improved our reserve position, reduced our reliance on one-time revenues for recurring expenses and have balanced our budgets without having laid off any employees. We have also enhanced our commitment to and financing of our capital needs. We have adopted and implemented Financial Management Principles (attached) for our various funds and improved our credit rating to the highest possible level.

Our most recent Free Cash certification was unusually high (\$6.9 million), and the prior year's certification was also quite high (\$5.9 million). By way of comparison, Free Cash certifications for the prior 5 years ranged from \$2.4 million to \$4.7 million. Put very simply, Free Cash is the balance created at the end of a fiscal year when actual revenues exceed the amounts estimated and/or actual expenditures are less than the amounts appropriated. There has been some discussion recently that these recent Free Cash figures indicate that the administration has been overly conservative in our revenue projections (with substantially higher actual revenues resulting). There has also been discussion that perhaps our Free Cash position provides an opportunity for the Town to reduce taxpayers' burden.

The issue of taxpayer burden is an area of significant concern to the administration and the Board of Selectmen. While our substantial commercial and industrial tax base has helped reduce the burden on homeowners – our average single family tax bill is the 4th lowest in the region – several programs have been established to help those who are challenged to meet this obligation. Through the efforts of the Board of Assessors and with the support of Town Meeting, Natick has instituted all property tax exemption programs allowed under Massachusetts General Law, and to the greatest extent allowed by law. We also administer a successful Senior Tax Work-Off Program, and Town Meeting recently approved an

amendment to this program to allow a proxy worker when the taxpayer is physically unable to fulfill the work obligations. We also administer an Elderly and Disabled Taxation Fund to assist qualified property owners; this program is funded through donations from Natick residents.

Property taxes have obviously been affected by the recent debt exclusions approved by voters for the new Natick High School and the Community Senior Center. When Town Meeting approved the implementation of an additional 2% hotel/motel room local tax (a 4% state tax was already in place) and a 0.75% local meals tax, we made a commitment to use these revenues to address our capital needs and to offset the burden of the debt exclusion projects. The cost of the projects was first included in the FY 2012 tax bills; in that first year just a partial payment was due on the projects' loans so the full impact of the project was not imposed on taxpayers. In FY 2013, the full cost of the projects was reflected on tax bills. In that year, we appropriated \$108,250 from the Capital Stabilization Fund to pay down a portion of that year's debt associated with the projects so as to mitigate taxpayer impact. In FY 2014 we propose to utilize significantly more funds – \$250,000 from Free Cash and \$250,000 from Capital Stabilization Fund – to help offset the burden to taxpayers.

With respect to the question of our conservative revenue projections, this definitely warranted our consideration. The Deputy Town Administrator has carefully evaluated past trends and the methodology for developing projections for the many revenue categories. As a result of this analysis, Local Receipts as a whole have been increased by almost \$600,000 over FY 2013. We have adjusted this revenue category upward to account for improved economic conditions while still ensuring an appropriate level of fiscal conservatism, consistent with our Financial Management Principles.

As stated earlier, Natick's fiscal condition could be viewed as being stronger now than it was before the recession. This did not happen by chance. This administration has been conservative in its spending, consistently evaluated services and operations for opportunities to enhance cost-effectiveness and viewed the long-range financial stability of the community as our highest priority.

Our positive financial position was clearly illustrated in the updated Three-Year Budget Projections presented at the 2012 Fall Annual Town Meeting. For the first time in my tenure as Town Administrator, a positive net budget projection was reflected for the ensuing fiscal year (FY 2014); that is, we did not anticipate having to address a deficit for FY 2014. Note that, in the recent past, projections have indicated a deficit position for the subsequent year of as much as \$4 million or more.

However, the preliminary budget presented in this document, based on general government and school department budget submissions, reflects a projected deficit of \$3,349,952. This is due to a number of factors.

First, overall revenue projections are approximately \$548,000 lower than projections submitted at the Fall Annual Town Meeting. Specifically, while projections for Local Receipts have been increased, the Tax Levy projection is \$600,000 lower due to reduced

anticipation for new growth combined with planned use of funds to offset the taxpayer impact of the debt exclusion projects. We also have identified the need to reduce our allocation of indirect costs attributable to the Water and Sewer Enterprise Fund; this adjustment will be applied over 3 years and will result in a shift of these costs from the Enterprise Fund to the operating budget of \$150,000 - \$250,000 per year.

Additionally, several expense lines are higher than projected. The budget for Administrative Support Services is higher than the Fall Town Meeting projections. This is driven primarily by our proposal to create two new positions – Information/ Communication Specialist and Payroll/Benefits Administrative Coordinator. Establishing these positions is responsive to critical needs within the administration. The Information/Communication Specialist will enhance our communication to the community and also within the organization. The Payroll/Benefits Administrative Coordinator position will provide needed back up and support for two critical functions, each of which is presently handled by just one person – payroll and benefits administration; note that these functions cover all employees (general government and school).

The budget for the Natick Public Schools is also higher than the Fall Town Meeting projection. Enrollment growth in our public schools has been substantial, and has placed significant pressure on the school system. The Superintendent's preliminary budget request proposes 27 additional personnel.

The initial budget requests for Public Safety, Community Services, Facilities Management, and the Morse Institute and Bacon Free Libraries are also somewhat higher than the Fall projections. In some cases (Public Safety and Morse Institute Library), the increases are simply a refinement of the cost to provide a level-service budget. In the case of the Facilities Management Department, personnel costs are increasing due to the proposed hire of an electrician; reductions will be taken elsewhere to account for the resulting reduced reliance on electrical contractors. New personnel are also proposed within the Community Services Department; these needs are partially fulfilled by shifting existing personnel from one division to another and funding additional hours for one part-time position, but a part-time Special Needs Coordinator is also proposed. The budget for Community Services is also higher due to proposed increases in direct aid to Veterans (which expenses are 75% reimbursed by the State). Finally, in the case of the Bacon Free Library, we are proposing an increase in the book budget as well as an increase in the Library Director's hours.

Notably, the budget for the Department of Public Works is more than \$300,000 lower than the Fall projections due to planned operational efficiencies. Specifically, beginning in July, the department will take over curbside collection of recyclable materials and will enhance the service by instituting weekly collections. Even accounting for additional personnel costs and the acquisition of collection vehicles, a cost/benefit analysis concluded that substantial savings will be realized. Additionally, the DPW is working on a program in collaboration with other communities to lease LED lights for all of the Town's streetlights, resulting in substantial savings in energy as well as maintenance costs.

The projected \$3.3 million deficit reflected in this preliminary budget must, of course, be addressed such that a balanced budget is presented to the 2013 Spring Annual Town Meeting. Based on the so called “split” methodology that has been utilized for several years to determine the allocation of revenues to the general government and school department, the school department is facing a \$3.4 million deficit while general government is not in a deficit position. It is important to recognize however, that the split methodology is a mathematical formula that does not incorporate community priorities, changing needs and other subjective values that must be taken into consideration as discuss and debate the overall budget deficit.

Over the several years that I have been serving this community, we have endeavored to raise the level of professionalism we provide and be responsive to the needs of the community. These needs evolve over time, and inevitably they do not lessen. While we did not lay off any personnel during the recession, many positions were left vacant upon retirement or resignation. We began to fill some of these positions in FY 2013, but some departments still have fewer personnel than in the recent past. In some cases, efficiencies permit a reduction in personnel. But in other cases we struggle to deliver needed services and be responsive to evolving expectations. The same is certainly true for the school department. Thus, as noted earlier, both the general government and school department have proposed additional personnel as part of the FY 2014 budget. It is important to note that, while we have proposed additional personnel within the FY 2014 budget, there remain a number of critical positions that remain unfilled. It is our intent to apply our usual prudent approach and address these needs over time, as our financial condition allows.

We also have substantial capital needs in our future, most notably to address older and crowded school buildings. While much analysis and debate is still needed, the School Administration recently recommended to the School Committee that a letter of interest be submitted to the Massachusetts School Building Authority indicating the district’s intent to prioritize the reconstruction or replacement of the Kennedy Middle School. It would be wise to continue the path we established at the Fall Annual Town Meeting by setting aside funds for this project whenever possible so as to reduce the inevitable future debt exclusion request.

There also is uncertainty as to the financial condition of the state and federal governments. While we have projected that FY 2014 local aid will be level funded, recent state revenue reports cause some uncertainty. And, as of this writing, the federal “fiscal cliff” remains unresolved. While a failure to resolve this issue would not likely cause any direct impact on municipal budgets, there inevitably would be ripple effects that could be far reaching.

The summary of this budget message is that, notwithstanding the deficit position reflected in this preliminary budget, we are in a rather solid financial position. This enviable position should encourage us to continue our conservative financial practices with a keen eye on the many needs and challenges that lie ahead. Discretion and good sense must be our guide as we evaluate our opportunities.

There is extensive material accompanying this budget message and, together, they provide a comprehensive overview of the town’s financial position, as required by Article 5 of the Charter of the Town of Natick.

This preliminary budget will be reviewed over the coming weeks by the Board of Selectmen, Finance Committee and School Committee. As always, this process will be transparent and available to the public, and we encourage the public's awareness and participation.

I cannot overstate my appreciation for the leadership role of the Deputy Town Administrator/ Finance Director Michael Walters Young in the development of both the annual operating and capital budgets. Each and every year, Michael identifies and implements opportunities to improve the quality, detail and presentation of the Town's budget materials to facilitate clear understanding of the Town's budget by the public and the Boards and Committees responsible for reviewing it.

I am also grateful to all of the Department Heads, whose dedication to this community and ability to continuously do more with less enables us to provide high-quality cost-effective services across all operations.

Sincerely,

A handwritten signature in cursive script that reads "Martha L. White". The ink is dark and the signature is fluid.

Martha L. White
Town Administrator